



# MID-MARKET INVESTMENT BANKING

Fall 2023

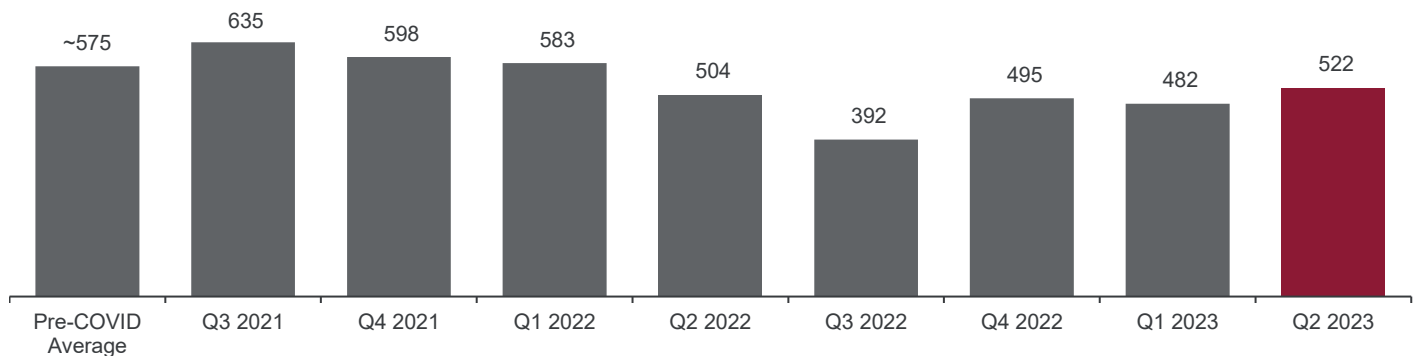


## Market Update

We are pleased to share our thoughts on the M&A environment so far in 2023.

### M&A Activity

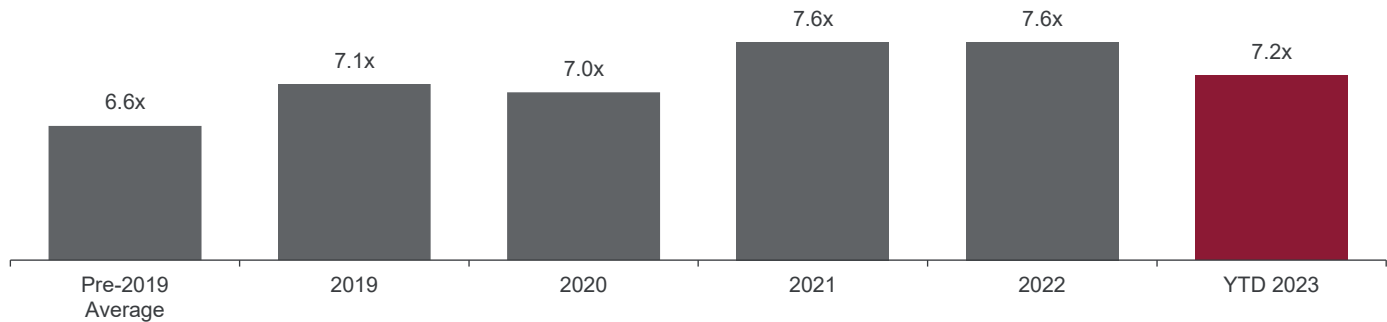
Canadian Quarterly M&A Transaction Count



Source: Capital IQ.

Transaction volumes in Canada have remained steady in 2023 at approximately 500 deals per quarter, lower than the highs of 2021 but consistent with the longer term activity levels. That said, given continued economic uncertainties with interest rates seemingly staying higher and for longer than anticipated, we continue to monitor the pace of early stage deal discussions with owners and new M&A processes getting started as an indicator of M&A activity heading into 2024 - so far, so good.

## Mid-Market Acquisition Multiples (Enterprise Value / EBITDA)

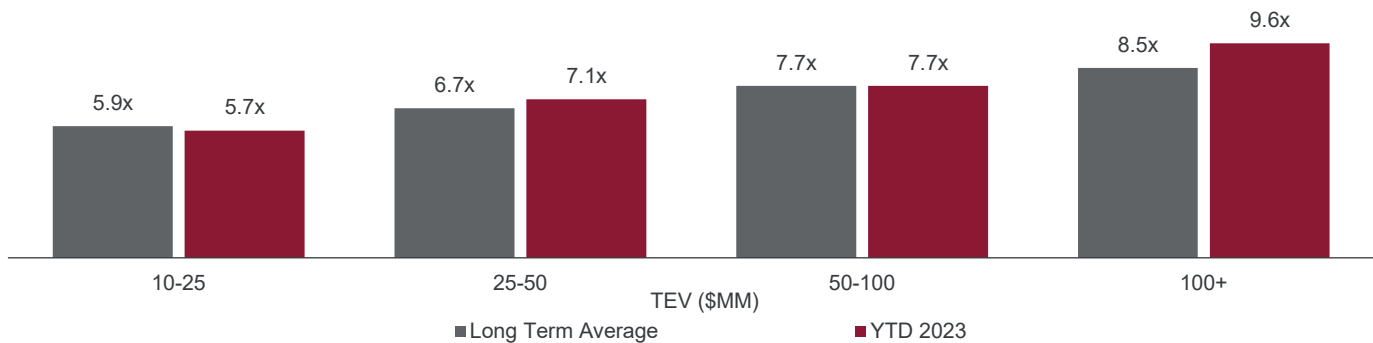


Source: GF Data.

Acquisition multiples paid by private equity buyers for North American mid-market companies have dropped to an average of 7.2x EBITDA. Still higher than the longer term average but down from the highs seen in recent years.

Irrespective of the specific sector, larger deals continue to attract higher multiples. Financing continues to be available for mid-market deals.

## Size Premium for Mid-Market Acquisition Multiples



Source: GF Data.

## Current Themes

Some of the themes we are seeing in M&A both in Canada and from our colleagues in the US include:

- Deals are taking longer to close
  - Buyers are cautious and many are dragging their feet
  - They want to see a longer period of actual results to enable more due diligence and detect any signs of slowing demand
- It's all about the EBITDA
  - Negotiations continue to revolve more around the target company's sustainable recurring EBITDA, rather than the multiple being applied
  - Whether the trailing 12 month EBITDA is increasing or decreasing becomes a key data point each month
- Flight to quality continues
  - Valuations for companies with sector tailwinds, specialized services, above-average profitability remain high with many bidders. Private equity firms are putting in more equity to pay up and win the deal, with a view to refinancing down the road when the debt market is more favourable
  - Cyclical commodity sectors and companies dependent on consumers' discretionary spending are attracting limited buyer interest. For such businesses, we are suggesting that owners wait until 2024

- Return of the carve-out
  - The interest rate environment is causing public companies and large private corporations to analyze where best to deploy their capital and resources
  - Decisions to sell non-core subsidiaries are now being made with proceeds used to pay down debt
- ESG is beginning to be discussed in the mid-market
  - Companies involved in the electrification of society (infrastructure, products, services) are gaining interest from strategic and PE buyers
- Private equity groups are experiencing some challenges raising intended fund size
  - With existing capital being deployed at a slower rate plus fewer exits resulting in less liquidity being returned to investors, some PE funds are having to settle for smaller fund sizes

# About us

CIBC Mid-Market Investment Banking is a leading M&A advisor, providing services to private companies:

- Divestitures
- Acquisitions and management buyouts
- Raising equity capital and securing debt financing

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